

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>The City of Sterling Heights Housing Commission</u>	County Macomb
Audit Date September 30, 2005	Opinion Date December 12, 2005	Date Accountant Report Submitted To State: May 23, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mount Clemens	State Michigan	ZIP 48043
Accountant Signature <i>Plante & Moran, PLLC</i>			

The City of Sterling Heights Housing Commission

**Financial Report
September 30, 2005**

The City of Sterling Heights Housing Commission

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Independent Auditor's Report

To the Members of the City of Sterling
Heights Housing Commission
City of Sterling Heights, Michigan

We have audited the accompanying basic financial statements of The City of Sterling Heights Housing Commission as of September 30, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of The City of Sterling Heights Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of The City of Sterling Heights Housing Commission as of September 30, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of The City of Sterling Heights Housing Commission taken as a whole. The accompanying financial data schedules included in the other supplemental information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 12, 2005



A worldwide association of independent accounting firms

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis

The City of Sterling Heights Housing Commission (SHHC) management's discussion and analysis (MD&A) is designed to: (a) assist the reader in focusing on significant financial issues, (b) provide an overview of SHHC's financial activities for the year, (c) identify changes in SHHC's financial position, and (d) identify individual program issues or concerns.

Our discussion and analysis of SHHC's financial performance provides an overview of SHHC's financial activities for the fiscal year ended September 30, 2005. Please read in conjunction with SHHC's financial statements.

Mission

SHHC was created on November 16, 1971 and, through its programs and partnerships, is committed to building better neighborhoods by providing housing opportunities for qualified individuals and families through creative and professional services in partnership with the greater community.

Financial Highlights

- SHHC's total assets exceeded its liabilities by \$4,741,655 at September 30, 2005. This is a decrease of \$182,903 from the previous year as a result of operations.
- Operating revenues increased by \$83,883 (10.4 percent) and were \$891,749 and \$807,866 for fiscal years 2005 and 2004, respectively.
- Expenses increased by \$43,065 (4.2 percent) and were \$1,080,648 and \$1,037,583 (including depreciation) for fiscal years 2005 and 2004, respectively.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The Commission's Funds

SHHC's financial statements utilize the Enterprise Funds method, on the full accrual basis of accounting. The enterprise method is similar to accounting used in the private sector. Many of the programs maintained by SHHC are required by the Department of Housing and Urban Development. Others are segregated to enhance accountability and control. Major programs are as follows:

Low-income Public Housing Program - Under this program, SHHC rents units at Schoenherr Tower, which is the apartment building it owns, to low-income households. This program is operated under the annual contributions contract (ACC) with HUD, and HUD provides operating subsidies to enable SHHC to provide the housing at a cost that is based upon 30 percent of household income. SHHC currently owns and operates 152 units in this program.

Section 8 Program - Within the Section 8 Program, SHHC administers contracts with independent landlords that own and lease units within our community. SHHC subsidizes the family's rent through a Housing Assistance Payment (HAP) made to the landlord. These programs are operated under annual contributions contracts (ACC) with HUD, which enables SHHC to structure a lease that sets the participants' housing costs at 30 percent of household income. SHHC currently administers over 40 housing choice vouchers.

The Commission's Financial Statements

SHHC's basic financial statements include a statement of net assets (similar to a balance sheet), which is designed to represent the available assets, net of liabilities, for the entire commission. Net assets (formerly known as equity) are reported in three broad categories: net assets invested in capital assets (net of related debt and depreciation), formerly called capital contributions; restricted net assets; and unrestricted net assets.

Our commission-wide financial statements also include a statement of revenue, expenses, and changes in net assets (similar to an income statement). This statement includes operating revenues such as rental income, operating expenses, such as administrative, utilities, and maintenance, and nonoperating revenues and expenses such as capital grant revenue and investment income. The focus of this statement is the change in net assets, which is similar to net income or loss. Finally, a statement of cash flows is included, which discloses net cash provided by or used in operating activities, capital and related financing activities, and investing activities.

The following statements are condensed versions of our financial statements, for the purpose of analysis and discussion. See the full financial statements for more details on results of operations.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Fiscal Year		Change
	2005	2004	
Assets			
Current and other assets	\$ 976,994	\$ 1,072,060	\$ (95,066)
Noncurrent assets	<u>3,900,132</u>	<u>4,006,607</u>	<u>(106,475)</u>
Total assets	4,877,126	5,078,667	(201,541)
Liabilities - Current and other liabilities	<u>135,470</u>	<u>154,109</u>	<u>(18,639)</u>
Net Assets			
Invested in capital assets	3,900,132	4,006,607	(106,475)
Unrestricted	<u>841,524</u>	<u>917,951</u>	<u>(76,427)</u>
Total net assets	<u>\$ 4,741,656</u>	<u>\$ 4,924,558</u>	<u>\$ (182,902)</u>

Major Factors Affecting the Statement of Net Assets

Total assets decreased by \$201,542. SHHC's plan is to cover only cash operating expenses on a year-to-year basis and not all expenses recognized for accounting purposes; therefore, the decrease of net assets on a yearly basis shall approximate the depreciation expense recorded.

Please refer to the full financial statements for more detailed information on these accounts.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

	Fiscal Year		
	2005	2004	Change
Revenue			
Tenant rent	\$ 406,704	\$ 381,351	\$ 25,353
Federal sources	465,361	415,306	50,055
Miscellaneous	19,684	11,209	8,475
Interest revenue (nonoperating)	5,996	6,385	(389)
Total revenue	897,745	814,251	83,494
Expenses			
Low-income public housing	546,831	529,324	17,507
Section 8 Programs	233,471	223,951	9,520
Non-HUD/Other business activities	300,345	284,308	16,037
Total expenses	1,080,647	1,037,583	43,064
Change in Net Assets	\$ (182,902)	\$ (223,332)	\$ 40,430

Major Factors Affecting the Statement of Revenue, Expenses, and Changes in Net Assets

Total revenues increased by \$83,494. This net increase is mostly a result of HUD subsidies increasing by \$50,055. The HUD subsidies are determined based on the needs of the individual tenants receiving assistance.

Total operating expenses increased \$43,064. Most expenses rose as a result of normal inflationary increases. However, utilities rose by approximately 9 percent.

Please refer to the full financial statements for more detailed information on these accounts.

The City of Sterling Heights Housing Commission

Management's Discussion and Analysis (Continued)

The following table shows net assets invested in capital assets during the current year:

	Fiscal Year		Change
	2005	2004	
Land	\$ 300,000	\$ 300,000	\$ -
Buildings	7,507,143	7,507,143	-
Equipment	717,010	578,209	138,801
Accumulated depreciation	(4,624,021)	(4,378,745)	(245,276)
Total net assets invested in capital assets	<u>\$ 3,900,132</u>	<u>\$ 4,006,607</u>	<u>\$ (106,475)</u>

During fiscal year 2005, the change in capital assets amounted to a decrease of \$106,475. The above table represents the changes in the asset accounts by category as follows:

- Equipment increased by \$138,801 as the result upgrading certain outdated equipment.
- The accumulated depreciation increased by \$245,276. The increase is current year depreciation expense.

Contacting SHHC's Management

This financial report is designed to provide a general overview of SHHC's finances and to show SHHC's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact SHHC's office.

The City of Sterling Heights Housing Commission

Statement of Net Assets September 30, 2005

Assets

Current assets:

Cash and cash equivalents (Note 2)	\$ 949,177
Accounts receivable	1,076
Due from other governmental units	<u>26,741</u>

Total current assets 976,994

Long-term assets - Capital assets - Net (Note 3) 3,900,132

Total assets 4,877,126

Liabilities

Accounts payable	5,778
Due to other governmental units	31,826
Accrued and other liabilities	<u>97,866</u>

Total liabilities 135,470

Net Assets

Invested in capital assets	3,900,132
Unrestricted net assets	<u>841,524</u>

Total net assets \$ 4,741,656

The City of Sterling Heights Housing Commission

Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2005

Operating Revenue

Tenant rent	\$ 406,704
Federal sources	465,361
Miscellaneous	<u>19,684</u>

Total operating revenue 891,749

Operating Expenses

Salaries and wages:	
Office	99,194
Maintenance	55,294
Security	9,972
Management fees	40,392
Utilities	111,611
Repairs and maintenance	85,360
Professional fees	39,212
Taxes	43,100
Insurance	62,696
Section 8 Programs	233,471
Depreciation	245,276
Miscellaneous	54,106
Bad debt	<u>963</u>

Total operating expenses 1,080,647

Operating Loss - Before nonoperating revenue (188,898)

Nonoperating Revenue - Interest 5,996

Change in Net Assets (182,902)

Net Assets - Beginning of year 4,924,558

Net Assets - End of year \$ 4,741,656

The City of Sterling Heights Housing Commission

Statement of Cash Flows Year Ended September 30, 2005

Cash Flows from Operating Activities

Receipts from HUD operating subsidies and grants	\$ 489,255
Receipts from tenants	409,330
Other receipts	19,684
Payments for housing assistance	(222,896)
Payments for administrative expenses	(139,587)
Payment for other operating expenses	(240,451)
Payments for resident and other services	(196,971)
Other payments	<u>(54,106)</u>

Net cash provided by operating activities 64,258

Cash Flows from Capital and Related Financing Activities -

Acquisition of capital assets	(138,801)
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Cash Flows from Investing Activities - Interest received

on investments	<u>5,996</u>
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Net Decrease in Cash and Cash Equivalents (68,547)

Cash and Cash Equivalents - October 1, 2004 1,017,724

Cash and Cash Equivalents - September 30, 2005 \$ 949,177

The City of Sterling Heights Housing Commission

Statement of Cash Flows (Continued) **Year Ended September 30, 2005**

Reconciliation of Operating Loss to Net Cash from Operating

Activities

Operating loss	\$(188,898)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation	245,276
Changes in assets and liabilities:	
Increase in due from other governmental units	(7,999)
Decrease in accounts receivable	34,519
Decrease in accounts payable	(9,533)
Increase in due to other governmental units	10,576
Decrease in accrued and other liabilities	<u>(19,683)</u>

Net cash provided by operating activities	<u>\$ 64,258</u>
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Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, and financing activities during the year ended September 30, 2005.

The City of Sterling Heights Housing Commission

**Notes to Financial Statements
September 30, 2005**

Note I - Significant Accounting Policies

The financial statements of The City of Sterling Heights Housing Commission (the "Housing Commission") pertain to the financial activities of the Housing Commission as a separate entity.

The Housing Commission was created to account for the operations of Schoenherr Towers, the City of Sterling Heights' (the "City") senior citizen housing project for low-income citizens, and other housing-related city matters.

Reporting Entity - The Housing Commission is governed by a board of commissioners appointed by the Sterling Heights City Council. There are no component units to be included in these financial statements as defined by accounting principles generally accepted in the United States of America.

Basis of Accounting - The financial statements of the Housing Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Housing Commission follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Housing Commission's basic financial statements consist of a statement of net assets, a statement of revenue, expenses, and changes in net assets, and a statement of cash flows. The Housing Commission uses a single Enterprise Fund to maintain its financial records on an accrual basis.

The Housing Commission considers all revenue and expenses to be operating, as required by HUD.

Cash Equivalents - For the purpose of the statement of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Investments - The Housing Commission's investments are recorded at fair value, based on quoted market prices.

The City of Sterling Heights Housing Commission

**Notes to Financial Statements
September 30, 2005**

Note 1 - Significant Accounting Policies (Continued)

Capital Assets - Capital assets are recorded at cost and are shown net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives ranging from 7 to 40 years. Capital assets are defined by the Housing Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Housing Commission has authorized multiple banks for the deposit of its funds. The Housing Commission follows Public Act 196 of 1997 which has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above as its investment policy. The Housing Commission's deposits and investment policies are in accordance with statutory authority.

The Housing Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Housing Commission does not have a deposit policy for custodial credit risk. At year end, the Housing Commission had \$348,750 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Housing Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Housing Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The City of Sterling Heights Housing Commission

Notes to Financial Statements September 30, 2005

Note 2 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Housing Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank investment pools	\$2,969	AAA	Standard and Poor's

Note 3 - Capital Assets

Capital assets as of September 30, 2005 include the following:

	Balance October 1, 2004	Additions	Disposals and Adjustments	Balance September 30, 2004
Land	\$ 300,000	\$ -	\$ -	\$ 300,000
Buildings and improvements	7,507,143	-	-	7,507,143
Furniture and fixtures	578,209	138,801	-	717,010
Total	8,385,352	138,801	-	8,524,153
Less accumulated depreciation	4,378,745	245,276	-	4,624,021
Net carrying amount	\$ 4,006,607	\$ (106,475)	\$ -	\$ 3,900,132

Depreciation expense was \$245,276 for the year ended September 30, 2005.

Note 4 - Risk Management

The Housing Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Housing Commission has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the insurance coverage in any of the past three fiscal years.

Other Supplemental Information

The City of Sterling Heights Housing Commission

Other Supplemental Information Financial Data Schedule - Balance Sheet September 30, 2005

	Housing Choice Vouchers	Low Rent Public Housing
Assets		
Current Assets		
Cash - Unrestricted	\$ 2,969	\$ 283,084
Accounts receivable - HUD other projects	-	1,076
Accounts receivable - Other government	26,741	-
Investments - Unrestricted	-	663,124
Total current assets	29,710	947,284
Noncurrent Assets		
Land	-	300,000
Buildings	-	7,451,703
Furniture, equipment, and machinery - Dwellings	-	772,450
Accumulated depreciation	-	(4,624,021)
Total noncurrent assets	-	3,900,132
Total assets	<u><u>\$ 29,710</u></u>	<u><u>\$ 4,847,416</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable less than 90 days	\$ -	\$ 5,778
Accounts payable - Other government	29,710	2,116
Accrued liabilities - Other	-	97,866
Total current liabilities	29,710	105,760
Net Assets		
Invested in capital assets	-	3,900,132
Unrestricted net assets	-	841,524
Total net assets	-	4,741,656
Total liabilities and net assets	<u><u>\$ 29,710</u></u>	<u><u>\$ 4,847,416</u></u>

The City of Sterling Heights Housing Commission

Other Supplemental Information Financial Data Schedule Statement of Revenue, Expenses, and Changes in Net Assets Year Ended September 30, 2005

	Housing Choice Vouchers	Low Rent Public Housing
Revenue		
Net tenant rental revenue	\$ -	\$ 406,704
HUD PHA operating grants	252,902	212,459
Other	-	19,684
Investment income - Unrestricted	32	5,964
Total revenue	252,934	644,811
Expenses		
Administrative salaries	-	99,194
Auditing fees	-	10,877
Outside management fees	-	40,392
Other operating - Administrative	-	28,335
Utilites:		
Water	-	14,099
Electricity	-	37,124
Gas	-	53,534
Fuel	-	-
Other utilities expense	-	6,855
Ordinary maintenance and operation - Labor	-	55,294
Ordinary maintenance and operation - Materials and other	-	85,360
Protective services - Other	-	9,972
Insurance premiums	-	62,696
Other general expenses	-	49,192
Payments in lieu of taxes	-	29,513
Total expenses	-	582,437
Excess of Revenue Over Expenses	252,934	62,374
Other Expenses		
Depreciation expense	-	245,276
Housing assistance payments	252,934	-
Total other expenses	252,934	245,276
Change in Net Assets	-	(182,902)
Net Assets - Beginning of year	-	4,924,558
Net Assets - End of year	\$ -	\$ 4,741,656